

CITY OF WAPATO
Yakima County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The City Council Should Take Immediate Action To Resolve Material Internal Accounting Control Weaknesses

During our audit of the city's internal accounting control systems we noted the following weaknesses:

Cash Receipts:

- a. The city allows more than one cashier to operate out of the same cash drawer. This eliminates individual cashier accountability over receipts. Each cashier should have access to only one cash drawer.
- b. Cash drawers are not secured in an open vault during operating hours. The city's vault is left open during operating hours because many city employees need access to information and items stored in the city vault. The city should secure locations for cash drawers during periods of time the vault is left open and accessible to city personnel.
- c. The utility clerk who is receipting the daily revenue is also responsible for recording the transactions to the accounting records and preparing the daily deposits. The city should segregate the duties of receipting, recording, and depositing where possible or institute monitoring of these responsibilities to reduce the risk of errors or irregularities.
- d. Cash drawers located in the utility department are not being reconciled by recording the mode of payment received (cash or check) on the daily revenues. Reconciling by mode of payment gives greater assurance that cash collected is accounted for and deposited timely.

Cash Disbursements:

- a. There is no supervisory review of the numerical integrity of treasurer checks issued by the city clerk.
- b. The city requires only one signer on treasurer checks. In order for the city to better protect itself against the risk of misappropriation, the city should require two check signers.
- c. Some operating expenditures were paid by treasurer checks instead of by warrant through the city's vouchers system. Treasurer checks are not authorized for use in paying operating expenses of the city.

Vouchers:

- a. The city has not established a formal policy for use of the city's credit cards. Credit policy should be established to safeguard public assets and ensure management directives are followed.
- b. Several expenditures did not contain evidence of authorization and did not have proper supporting documentation to demonstrate the services were for legitimate city purposes or whether the services were actually received by the city.

Payroll:

- a. The payroll rates in the city's approved salary ordinance did not agree with those in the approved union contracts. Our payroll tests also revealed that many city employees were not paid in accordance with either the union contract or the salary ordinance, although the differences were minor. City officials stated they believed that employees covered under the union contract should have been paid per that contract and all other employees should have been paid per the salary ordinance. City officials should ensure the union contracts and salary ordinance are in agreement and the correct salary rates are paid to city employees.
- b. The city does not have a formal personnel policy that outlines payment of overtime and compensatory time. As a result, we were unable to determine whether the overtime and compensatory time earned by employees were in accordance with management's direction. City officials should establish personnel policies in this area.

Billings:

- a. The city is not charging utility customers according to the approved utility rate ordinance. Residential users are being charged slightly more per month for sewer than the authorized rates and commercial customers are being charged slightly less than the authorized rates. The city should ensure all customers are being charged at the authorized rates.
- b. Customer billing disputes are reviewed and adjusted by the city employees directly associated with the utility billings. Disputes and adjustments resolution should be segregated from the billings and payment receipting functions. Any adjustments should be reviewed and approved by management.
- c. The city does not periodically reconcile utility deposits on account with the accounting records. The city should reconcile all bank accounts to accounting records on a monthly basis in order to detect errors or irregularities in a timely manner.

Journal Entries:

There is no supervisory review of the adjusting journal entries posted by the city clerk to the accounting records. Supervisory review is necessary to ensure the integrity of adjustments made to the accounting records.

The American Institute of Certified Public Accountants (AICPA) *Statement of Auditing Standards*, Section 319.69(2) states:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures . . . some of the specific objectives management may wish to consider include the following:

- a. Transactions are executed in accordance with management's general and specific authorization.
- b. Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability for assets.
- c. Access to assets is permitted only in accordance with management's authorizations.
- d. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to differences.

Due to the internal control weaknesses noted above: (1) management may not be obtaining accurate and complete information to make informed operating decisions, (2) the 1995 audit costs were higher because of increased audit risk, and (3) the possibility of errors and irregularities occurring and not being detected in a timely manner is significantly greater.

The new mayor and city clerk have begun implementing internal accounting controls. We recommend they continue these practices to allow them to meet statutory accounting and reporting requirements in an accurate and timely manner. In addition, we also recommend the city officials take action to implement and monitor internal accounting control policies and procedures.

2. Controls Over The Disposition Of Property In The Police Department Should Be Implemented

The police department routinely disposes of property room evidence before receiving the court order for disposition.

RCW 63.32.010 states in part:

. . . after sixty days from date when said case has been finally disposed of and said property released as evidence by order of the court, said city may:

- (1) At any time thereafter sell said personal property . . .
- (2) Retain the property for the use of the police department . . .
- (3) Destroy an item of personal property (Emphasis ours.)

City officials were unaware the police department was not complying with the above requirement.

Improper disposition of evidence could severely impair the judicial process and cost the owners and taxpayers unnecessary losses.

We recommend city officials ensure the police department comply with the above regulation. We also recommend the city institute a monitoring system to review departmental operations for compliance with applicable laws and regulations.

3. The City Of Wapato Should Comply With Budget Requirements

During our audit of the City of Wapato, we noted several deficiencies in the budget process.

- a. The council did not approve budgets for all funds that the *Budgeting, Accounting, Reporting System* (BARS) manual requires. The following funds were not budgeted as required.

105 - Fire Truck
108 - Drug Buy
125 - State Police

BARS Volume 2, Part 3, Chapter 1, page 7-10 states in part:

1. Normally all general (current expense), special revenue, and proprietary funds of local governments must have annual appropriated budgets . . .
2. Normally debt service and capital project budget requirements are met by the continuing appropriation contained in the enabling ordinance or resolution. These funds do not need annual budgets.

- b. The city council approved budget amendments after they overspent the fund. This condition was reported in the 1991, 1993, and 1994 audit reports. The following funds incurred expenditures greater than final budget amendments:

<u>Fund</u>	<u>Actual</u> <u>Expenditures</u>	<u>Budgeted</u> <u>Expenditures</u>	<u>Amounts in</u> <u>Excess of</u> <u>Budget</u>
Sewer	\$362,044	\$349,343	\$12,701
Library	28,039	27,621	418
Park	25,071	18,300	6,771

RCW 35.33.125 states in part:

The clerk shall issue no warrant and the city council or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund, except upon order of a court of competent jurisdiction or for emergencies as provided in this chapter.

- c. The original budget and the amendments thereto were not always accurately reported in the accounting records as approved.

RCW 35.33.041 states in part:

All estimates of receipts and expenditures for the ensuing year shall be fully detailed in the annual budget and shall be classified and segregated according to a standard classification of accounts adopted and prescribed by the state auditor . . .

Failure of the city to monitor and amend budgets in a timely manner is contrary to statutory requirements cited and hinders the management of public resources.

The conditions listed above occurred because the city officials did not monitor the financial reports and amend the budgets in a proper and timely manner.

We recommend the city develop and implement a system of budget controls that will ensure compliance with budgetary requirements.